

# Audit Committee Update for Cheshire East Council

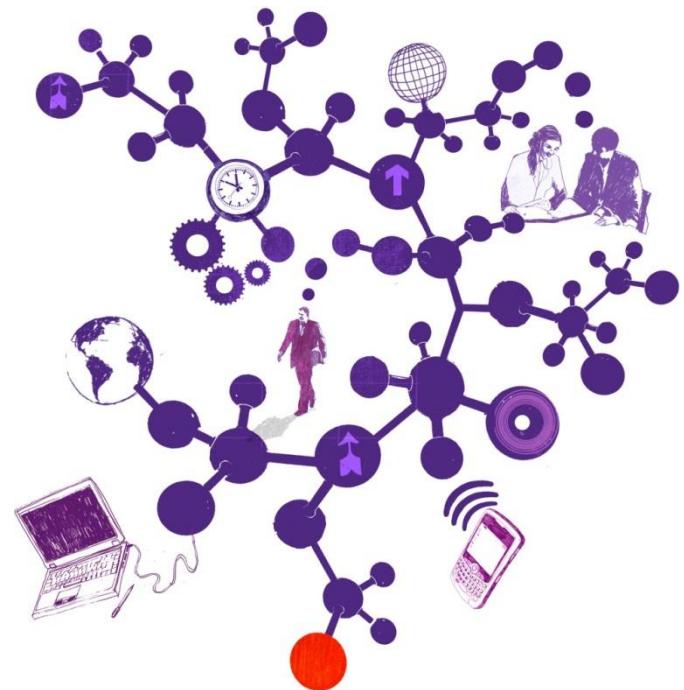
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**Year ended 31 March 2015**

January 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments relevant to you.

Members of the Audit and Governance Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Rising to the challenge: the evolution of local government - summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision - exploring finance and policy future for English local government
- Where growth happens - on the nature of growth and dynamism across England.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Manager.

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# Progress at January 2015

Work	Planned date	Complete?	Comments
<b>2014-15 Accounts audit plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014/15 financial statements.	January – February 2015	No	We will prepare an audit plan to report to the March meeting of the Audit and Governance Committee.
<b>Interim accounts audit</b>  Our interim fieldwork visit includes: <ul style="list-style-type: none"><li>• updating our review of the Council's control environment</li><li>• updating our understanding of financial systems</li><li>• review of Internal Audit reports on core financial systems</li><li>• early work on emerging accounting issues</li><li>• early substantive testing</li><li>• initial work on the Value for Money conclusion.</li></ul>	January – March 2015	No	We will discuss and agree a timetable for these key elements of the audit with the Council's management.
<b>2014-15 final accounts audit</b> Including: <ul style="list-style-type: none"><li>• audit of the 2014/15 financial statements</li><li>• proposed opinion on the Council's accounts.</li></ul>	July – September 2015	No	We are meeting with key finance staff to discuss the timetable and requirements for the audit of the financial statements.

# Progress at January 2015

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b>  The scope of our work to inform the 2014/15 VfM conclusion considers whether the Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> <li>securing financial resilience</li> <li>challenging how it secures economy, efficiency and effectiveness</li> </ul>	January – June 2015	No	<p>Work will be completed at an early stage of the audit but then updated to reflect subsequent information on financial or performance matters.</p> <p>The final VfM conclusion is issued at the conclusion of the final accounts audit in September.</p>
<p><b>Other areas of work</b>  Our work to certify grant claims for the year 2013/14 is now complete.</p> <p>The only grant claim to be certified for 2014/15, under the existing Audit Commission framework is the housing benefits subsidy claim.</p>	To November 2014  By November 2015	2013/14 Yes  2014/15 No	<p>Our summary of the grant certification work completed for 2013/14 is reported to this meeting of the Audit and Governance Committee.</p>
<p><b>Non audit services</b>  The Council commissioned our services to perform a 'reasonable assurance engagement' and report on the Local Authority's Teachers' Pensions return. The terms of the engagement, as defined by Teacher's Pensions, were agreed with the Council's Chief Operating Officer. The fee for this specific work is £4,800.</p>	November – December 2014	Yes	<p>We submitted the amended return and our independent reasonable assurance report to the Teachers' Pensions agency. This confirmed the return to be prepared in all material requests in accordance with the regulations.</p> <p>This engagement is separate from our duties and responsibilities as your external auditor.</p> <p>We have considered and concluded that this non-audit service does not present a threat to the independence of our current and future audits of the financial statements or the VFM conclusion.</p>

# Progress at January 2015

Work	Planned date	Complete?	Comments
<b>Supporting Members development</b> - we provided our external audit perspective on the features of an effective audit committee.	September 2014 November 2014	Yes	
<b>Technical accounting developments:</b> <ul style="list-style-type: none"><li>• We invited finance staff to attend our workshops on the changes on accounting for maintained schools and infrastructure assets.</li><li>• We shared our local authority briefing paper – on changes to the Code for 2014/15.</li><li>• We are again providing workshops in partnership with CIPFA FAN for finance staff covering the key issues affecting the preparation of the 2014/15 statement of accounts and the audit issues that need to be considered.</li></ul>	November 2014 November 2014 February 2015	On-going	We will continue to discuss complex or emerging accounting issues with your finance staff.

# Rising to the challenge

## Grant Thornton

Our national report, Rising to the Challenge, the Evolution of Local Government, was published in December and is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/>

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

# 2020 Vision

## Grant Thornton

Our national report '2020 Vision' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

It highlights that English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios\* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

# Pulling together the Better Care Fund

## Grant Thornton

Our national report 'Pulling together the Better Care Fund' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Pulling-together-the-Better-Care-Fund/>.

The report asks 'Do local authorities and clinical commissioning groups (CCGs) have effective arrangements to develop joint Better Care Plans for agreement by the health and wellbeing boards (HWBs) and how ready are they for the pooled fund in April 2015?'

Our report draws on our review of the introduction of draft Better Care Fund (BCF) plans for both the February and April submissions. It is based on a sample of our findings from 40 HWB localities. It considers the partnership arrangements across a HWB planning area and is supported by discussions with the sector, across the country. The result is a snap shot of progress as at 30 June 2014, prior to the issue of revised planning guidance by NHS England and the Local Government Association on 25 July 2014.

It provides you with:

- an understanding of how your approach to introducing BCF compares to others across the country
- assistance in identifying the key issues to delivering BCF plans effectively
- insight into current best practice
- practical areas for consideration for improving arrangements in the future.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

# Accounting for schools

## Accounting and audit issues

The debate about the recognition of school land and buildings on local authority balance sheets (which most commentators had thought settled) has been reignited. Grant Thornton is taking a leading role in trying to resolve this unexpected development.

In March, CIPFA/LASAAC Code concluded that under IFRS 10, maintained schools (but not free schools or academies) meet the definition of entities that need to be consolidated in group accounts. However, rather than requiring local authorities to prepare group accounts, the CIPFA/LASAAC Code requires local authorities to account for maintained schools within their single entity accounts. This includes school income and expenditure as well as assets and liabilities. The general expectation in the sector was that:

- the vast majority of voluntary aided, voluntary controlled and foundation schools would be recognised on local authority balance sheets
- a small number of school buildings that are provided at no charge by a religious body and where there was a realistic possibility that they could be taken back by their owners would be treated as assets of the religious body and so not recognised on the local authority balance sheet.

However, at the CIPFA conference in November, CIPFA clarified that it considers that most voluntary aided and voluntary controlled school buildings would **not** be recognised on the balance sheet. This is because the religious bodies have a legal right to take back these assets. Nor does CIPFA consider the position for foundation school buildings to be clear cut and local judgement would need to be applied. We have not seen evidence that would support the view taken by CIPFA and have concerns about:

- whether the treatment proposed by CIPFA complies with the Code
- the significant practical implications for the sector
- the potential for inconsistent accounting treatments depending on local judgement.

We are working with the Audit Commission, CIPFA and the other audit firms suppliers to try to seek a practical way forward as soon as possible. We will continue to share the latest developments with officers. In the mean time we would recommend that you continue your preparations for recognising school land and building including:

- identifying those schools where school buildings are owned by third parties (such as church dioceses) and determining under what circumstances the buildings could be taken back by the third party
- obtaining valuations for school land and buildings for each of the three balance sheet dates (1 April 2013, 31 March 2014, 31 March 2015)
- obtaining sufficient information to enable the authority to restate its revaluation reserve and capital adjustment account.

# Group accounting standards

## Accounting and audit issues

The CIPFA Code has adopted a new suite of standards for accounting for subsidiaries, associates and joint arrangements. These changes affect how local authorities account for services delivered through other entities and joint working with partners. These accounting standards are particularly relevant to Cheshire East Council where you have a range of delivery models in place and are preparing group accounts for the first time in 2014/15.

The key changes for 2014/15 are to:

- the definition of control over 'other entities'. The revised definition is set out in IFRS 10 and determines which entities are treated as subsidiaries
- the accounting for joint arrangements. This now follows IFRS 11 and includes changes to the definition of joint ventures and how joint ventures are consolidated in group accounts
- disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities as set out in IFRS 12.

Our local authority briefing paper covers these changes in more detail. CIPFA have also recently published "Accounting for Collaboration in Local Government" reflecting the revised standards.

# Financial sustainability of local government

## Local government guidance

In November the National Audit Office published their report on the [Financial Sustainability of Local Government](#).

The report concludes that Local authorities have coped well with reductions in government funding, but some groups of authorities are showing clear signs of financial stress. The Department for Communities and Local Government has a limited understanding of authorities' financial sustainability and the impacts of funding cuts on services, according to the National Audit Office.

The Government reduced its funding to local authorities by an estimated 28% in real terms between 2010/11 and 2014/15. Further planned cuts will bring the total reduction to 37% by 2015/16, excluding the Better Care Fund and public health grant. Although there have been no financial failures in local authorities in this period, a survey of local auditors shows that authorities are showing signs of financial pressure. Over a quarter of single tier and county councils had to make unplanned reductions in service spend to deliver their 2013-14 budgets. Auditors are increasingly concerned about local authorities' capacity to make further savings, with 52% of single tier and county councils not being well-placed to deliver their medium-term financial plans.

There are significant differences in the scale of funding reductions faced by different authorities. Authorities that depend most on government grant are the ones most affected by funding reductions and reforms. This was an outcome of policy decisions to tackle the fiscal deficit by reducing public spending, and for local authority funding to offer incentives for growth.

Local authorities have tried to protect spending on social care services. Other service areas such as housing services and culture and leisure services have seen larger reductions. While local authorities have tried to make savings through efficiencies rather than by reducing services, there is some evidence of reduction in service levels.

According to the NAO however, the Department does not monitor in a coordinated way the impact of funding reductions on services, and relies on other departments and inspectorates to alert it to individual service failures. In consequence, the Department risks becoming aware of serious problems with the financial sustainability of local authorities only after they have occurred. The Department's processes for assessing the capacity of authorities to absorb further funding reductions are also not sufficiently robust.

# Kerslake report on Birmingham City Council

## Local government guidance

Sir Bob Kerslake published his report, [The way forward: an independent review of the governance and organisational capabilities of Birmingham City Council](#), on 9<sup>th</sup> December.

Commissioned by the Secretary of State this comes off the back of well publicised failures in Children's Services and the Trojan Horse issue in Birmingham Schools. It includes some tough messages for Birmingham City, but there are issues that resonate with all large local authorities.

The report's recommendations include the following.

- The Council needs an external Improvement Board to show that it is making the changes it needs to effectively serve its population.
- Internal governance needs fundamental change, including the relationship between members and officers, how it plans for the future, a stronger corporate core and a programme of culture change.
- The Council needs more political clarity, moving away from annual thirds elections and reducing the number of members. This includes redesigning the model for representative governance.
- Medium term financial planning needs greater clarity, and the Council cannot assume that it will get any additional Government support.
- In moving from an organisation employing 20,000 people in 2010 to 7,000 people in 2018, the Council needs fit for purpose workforce planning.
- Devolution within the Council and across the City needs simplifying and a greater outcome focus.
- Partnership working needs redefining, with the Council moving away from a 'Big Brother' approach.
- The Council needs to work with the other West Midlands' councils to make the combined authority a reality that delivers jobs and prosperity to the region.

# Local government financial reporting remains strong

## Local government guidance

The Audit Commission published its report, [Auditing the Accounts 2013/14: Local government bodies](#), on 11<sup>th</sup> December.

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30<sup>th</sup> September deadline.

This year the Audit Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014.

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. This move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.



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